We Aren't Told

THE TRUTH ABOUT INFLATION

by FREMONT RIDER

The author of this article makes a powerful case against the moral evil of inflation. In Mercury's opinion, however, he has neglected to sufficiently stress the blame our fractional reserve central banking system deserves for causing and continuing to cause inflation.

FOR FORTY-THREE years the American people have been in the grip of a steadily mounting rise in the cost of their living. They do not know much about the technicalities of economics, but an amazingly large proportion have come to see, by the use of nothing but plain common sense, that this inflation has been mainly caused by the unrelenting pressure of our labor unions for ever higher wages without any correlative increase in productivity. You don't have to be an expert in economics to know that, when you pay a man more money for doing the same amount of work, the thing he does is going to cost more.

On the side of the general public in this growing popular protest against more inflation are the so-called "wage-push" group of our economists, our more farsighted legislators, a substantial group of business men, and a few of our newspapers and periodicals.

On the other side, unwilling to see inflation come to an end (if this means putting a halt to further labor union wage demands) are, of course, the unions themselves, the great mass of our politicians (at state and local levels even more than at the national level), the so-called "classic" group of our economists, and most of our newspapers and periodicals.

Because, whatever they may say,

the unions are well aware that they are on the defensive, they have for years been pouring out a mass of pro-inflationary propaganda. With few exceptions, the business world —and particularly the advertising end of it—has also felt that inflation *was* (for it) synonymous with "prosperity", and since it wanted its prosperity to continue, it also has not really wanted inflation to stop. So it too flooded the public with misinformational propaganda. The "classic" economists, to defend their theoretical position, attacked the opposing "wage-push" theory, their pronouncement naturally commanding respect because of the high professional standing of those who presented them. Finally came the politicians, particularly the outright pro-union ones, contributing their own little quota of distortion. The result is that the so-called "inflation problem" has become overlaid and hidden by such a vast mass of misstatements that it has been made to seem complex.

THIS "burden of confusion" has taken a thousand forms. That part of it put out on what might be termed the high-brow level has taken the form of subtle economic double-talk and a distortion of semantics. On the middle level there has been much misuse of statistics and slanted interpretations of facts that are themselves true. On the lowest level there has been a good deal of plain lying.

Because the two basic facts about inflation—namely, its cause and its cure—seem so clear to the American who is being hard hit by it, he cannot understand either the endless argument about it or the delay in stopping it. Inflation has now reached the point where it is hurting so many people that it would seem the time has come to correct a few of the worst misstatements that have gained currency. We shall obviously be able to vote more intelligently this fall if we get a little propagandistic dust out of our eyes.

Perhaps the most sweepingly important lie of all is the one that asserts that inflation actually isn't hurting anybody. This lie has been broadcast particularly assiduously. Just last year one of our largest weekly periodicals had a whole series of articles based on the text: "we are all amazingly prosperous"; and one of the chief defenders of inflation phrased the same misstatement earlier last year in the words: "It's perfectly silly to worry about a little inflation. Practically everyone is now prosperous."

One cannot help wondering just what the spreaders of this sort of stuff hope to gain from it. That one-third of our population which is being slowly driven to the wall by the ever higher cost of living, knows out of its own experience that it is a lie. And the Census Bureau has the detailed truth available for anyone who does not know it from personal experience.

The Bureau tells us that one-half of all the people in the United States have incomes so small, in terms of today's purchasing power, that, whatever else one may call their economic status, no one would call them really "prosperous". It further says that about one-sixth of our population are hard put to make both ends meet; and that about one-twelfth of them are reaching the point of financial despair.

This exact phraseology is not quoted from the Census Bureau, but the figures that justify it are. For it says specifically that, in 1956, one-half of all our forty-three million families received (*to support, on the average, four persons each*) a net income, after taxes, of less than $4300. This $4300 was, it will be noted, the national "median" income—that is the twenty-two million families in the "poor" half of our population had incomes smaller than $4300, many of them incomes very much smaller. In fact, the Bureau says that seven million had incomes of less than $2000, and that three million had incomes of less than $1000. Does one have to compile a series of detailed family budgets to prove that, at 1956 living costs, no family was "prosperous" that had four persons to feed, house, and clothe, on an annual income of less than $1000 (or on one of less than $2000, for that matter).

This unprosperous half of our population, these twenty-two million families that had incomes between $800 and $4300 a year, was made up of most of our farmers, some labor unionists, all unskilled laborers, most teachers, ministers, and white collar workers, and practically all retail clerks and small service people. Another large, and socially important segment of it consisted of those of our families which are the most vulnerable of all to inflation, namely, those which are living, wholly or mainly, on fixed incomes (pensions, social security, life insurance annuities, and the like). There are no exact figures as to the number of these families, but correlating such statistics as we have, there would seem to be about six million of them. And, if you think the plight of a great many families in this group—retired teachers, college professors, and the like—is not approaching the point of despair, just talk with some of them!

THE OTHER, more "prosperous", half of our population, those families that, in 1956, had incomes over $4300 a year, included practically all business men, most labor unionists, and most professional men. Unfortunately, it also included all our "leaders"—political, union labor, and business—and all the economic experts upon whom these leaders depend for information. And one has to say "unfortunately", because it means that most of these leaders (and their experts) know nothing at first hand

about the straits to which inflation has already brought one-third of all our people. They simply do not realize that the gaudy, bulbous cars that crowd our parking lots belong mostly to the "rich" half of our population; that it is the rich half who have for years swollen all avenues of travel and kept luxury merchandise "moving" madly. Just because our leaders are ignorant, this first Big Lie, this assertion that "everybody in the country is now prosperous", has been able to distort all legislative and economic thought.

There is another misunderstanding about inflation that is just as deceptive, and almost as basic, as the first one. That is the one which insists that lots-of-dollars is synonymous with prosperity.

Let's test this second lie in very simple terms indeed by asking ourselves whether there is an iota of increased prosperity in having a pound of butter cost $1.00 instead of 20 cents. The pound doesn't feed any more mouths. Is there any increased "prosperity" whatever in having a given house cost seven times as many dollars as it cost 50 years ago?

This economic truism, that inflated dollars are not prosperity, remains exactly as true on the highest pinnacles of high finance, even though the labor union propagandists, their sympathizers among the economists, and their allies in the newspaper and periodical world, want very much for us to believe otherwise. For years they have been dinning into our ears assertions of our "fantastic prosperity". The union purpose behind this propaganda is obvious. If everybody in the country is prosperous why shouldn't unionists "get theirs"? We have just seen that "everybody" is not "prosperous": now we are going to see that most of our alleged prosperity is imaginary.

IT IS TRUE that, for the nation as a whole, the prosperity we were enjoying before the depression was a greater one than we Americans had ever had. It is true that we still have more cars and television sets, and spend more money for candy, liquor, tobacco and cosmetics than any people on earth. And it was also true, until a few months ago, that we had full employment. In fact we had such very "full employment" that, in their endeavors to keep up with rising living costs, about six million wives and widows with small children were obliged to leave their children at home to fend for themselves while they went out to work, and four million men and women were forced to be "moonlighters"—holding down two separate jobs every day to earn enough for their families to live. (The rapid increase in broken homes, and the appalling spread of juvenile delinquency which have been the most obvious results of these two special kinds of "full employment",

apologists for inflation have asked us if we would please forget about!)

But, looking at these two kinds of dual employment in one family in the light of their moral and social implications, is it not pertinent to ask whether any nation has the right to call itself "prosperous" when, in the case of nearly one-third of all of its families, both husband and wife have to go out of the home to work to provide enough money to keep their family solvent?

But, to come back to Big Lie no. two. Just how great, both actually and relatively to the nation's prosperity in the past, is the prosperity that we have been enjoying over the last 50 years? Take the figures for "gross national income", a basic and so a frequently quoted statistic. As they are commonly cited, they are as correct as compilation difficulties permit them to be. It is not the figures themselves that are wrong, but the interpretation of them. Propagandists for inflation use them, both by implication and by actual misstatement, as though they were an indication of increased prosperity.

Remember always, that lots-of-dollars are no more an indication of increased prosperity than were those two prices for that pound of butter.

When your daily paper told you, two years ago, that our gross national income had gone up from 30 billion dollars in 1906 to 340 billion in 1956, you probably reacted with a sort of awed pride. We had indeed become a marvelously prosperous country.

But take a careful look at the real facts lying behind these huge figures. You note that, at either end, as their measuring stick they use dollars. But you know that these dollars, which they use as a measuring stick, shrank in value, year after year, because of inflation. If you had happened to notice that our gross income seemed to increase in dollars at just about the same rate as the said dollars shrank in value, you would have, as the saying goes, smelled a rat. But those who quoted these figures to you did not explain this. In dollars the figures of gross national income were reasonably correct; but, as a measure of the increase in our national prosperity, they were completely phony. If our national income had been measured in 1906 and in 1956 in dollars of the same value, our 1956 national income would have been only 85 billion instead of 340 billion—a very considerable difference! If we really want to measure our increase or decrease in national productivity (prosperity) we cannot use dollars at all. We have to count units of goods produced and services rendered.

Furthermore, even these figures must be adjusted to a per capita basis. In 50 years, our population went a long way toward doubling itself; but, obviously, no country

can be a whit more "prosperous" unless there is in it an increased productivity per person. If we correct our original "gross national income" figures, not only for the deflation in the value of the dollar, but also for population increase, most of that vast, continually talked about, 1956 "prosperity" melts away into thin, hot air.

"Most", but not all. Although the nation as a whole was not, in 1956, ten times as prosperous as it was in 1906, it was, on the average, twice as prosperous. And even twice is an accomplishment to be proud of. The trouble with this 100 percent improvement in our living standards in the last 50 years, from a propaganda standpoint, is that it is nothing new. On the contrary, it is routine. We Americans have always been thus fortunate. We have lived in a country whose economy has, for over 300 years, permitted just about this much steady and genuine betterment in its standards of living, as the result of a continual improvement in productive and distributive efficiency. This improvement in productivity, which translates into a real increase in prosperity (and the only possible one) has averaged about two percent a year. If its impact had never been interfered with by the greed of either capital or labor, the cost of living of every person in the United States could have been cut in half, every 50 years, without any loss to anyone. This two percent a year of "efficiency betterment" is amazing enough. There is no need to attempt to gild the lily.

What has just been said about gross national income applies equally, of course, to every other financial statistic; to total corporation earnings, to total national savings bank deposits, to total national holdings of life insurance, etc. In other words, every *comparative* statistic *quoted in dollars* is meaningless; and no economic study, using dollar statistics comparatively, that fails to give its readers warning that they mean nothing, can be deemed either careful or scholarly.

When Germany was near the end of her great inflation, her gross national income was being measured in quintillions of marks, while her people were roaming the streets to try to find something to eat. So remember Big Lie no. two: lots-of-dollars and prosperity do *not*— in any sense whatever—add up to the same thing.

WE COME NOW to a particularly annoying group of closely associated, and widely broadcast misstatements about inflation, that run this way: "A little inflation is really a good thing." Or: "Inflation is the lesser of two evils." Or: "Our inflation is only a creeping one, not a runaway one." Or: "Our inflation is not like Germany's." Or: "Our inflation can never become really dangerous because our money is not turned out

by printing presses run wild.", etc. Let's nail, all at once, this particular group of falsehoods, or near falsehoods.

First: there is no such thing as a permanent "little inflation." *All* inflations, *unless something is done to stop them,* automatically get worse. Every "runaway" inflation started as a "creeping" one; it became a runaway one because it was not stopped in time. Federal Reserve Board Chairman William Martin goes further. Not only, he says, is the "little inflation" idea a "delusion"; but, just as soon as business men "expect inflation, and plan accordingly, they stimulate it." And, a little earlier, in the *Journal of Commerce,* Dr. Heinze Luedicke, one of our keenest American students of inflation, uttered the same warning: "Once the public catches on—once the fact of inflation stops being a secret among a relatively small group of insiders who know the ropes—the inflation process is accelerated."

The assertion that our inflation is "not like Germany's" is true: but also it is meaningless; for in each country inflation takes on a characteristic national pattern. Uruguay, once one of the most prosperous of Latin American states, is on the verge of inflationary bankruptcy because of unwise socialistic experiments. India's galloping inflation has dozens of side angles. France has been for several years struggling against inflationary collapse: in her case, wide-spread tax evasion, ill-advised colonial wars, and intransigent labor unions share the blame. England's inflation is showing a faint ray of light: some of her statesmen are trying to stop further union wage demands. Russia tried to halt her inflation last year by a repudiation of her national debt. Germany is forging ahead faster than any country in the world, a model of sound and genuinely prosperous enterprise, mainly because she has no inflation.

As to our not having "printing press money": that also is true. But something very much more important is true too: we have a "fiat money" infinitely more dangerous than printing press money. Ever since Mr. Roosevelt took us off the gold standard our money supply has been subject to governmental inflation any time at will. It would take weeks for our Bureau of Engraving and Printing to inflate our currency 100 percent by printing twice as much of it. But we don't have to wait weeks to have the value of our money diluted. With us one single government agency can, by a single order, cut in half, over night, the value of every dollar we possess. As a matter of fact, within the last six months it has pumped over six billion dollars of inflationary hot air into our money supply, by so doing, lowering the spendable value of all the money in our pockets about four percent.

AROUND the Cost of Living Index of the United States Department of Labor a special group of very serious inflationary misstatements has been built up. The most important of these misstatements has been the basic one: that the Cost of Living Index is itself an index of inflation. In most cases this misuse of it has been made carelessly or ignorantly, but in many cases it has been done with deliberate intent to deceive.

The Cost of Living Index is not a measurement of inflation. It is not intended to be. It is an index to current retail price changes in the consumer goods bought by a certain group of consumers. For short periods there may happen to be a rough agreement between it and the index of the rate of the rise or fall of inflation. But this temporary coincidence is fortuitous; and, over any extended period of years the differences in the two indexes becomes very substantial.

There are several reasons why this has to be true. In the first place, there are many important areas of the economy which are either not represented in the Cost of Living Index at all, or are inadequately, or belatedly represented there. For example: All through the Eisenhower Administration there have been heavy wage increases in such largely unionized industries as mining, transportation, printing and construction. These increases do not show up immediately in the Index. Eventually some of them (the costs of such things as steel, roads, and office buildings) do get reflected, to a greater or lesser degree, in the retail prices of consumer goods; but in most cases this reflection, if it occurs at all, takes several years to develop.

There has been a good deal of propaganda claim that there has been little, or no, inflation since President Eisenhower took office, this claim being based, of course, on the fact that the Cost of Living Index has stayed fairly stable during the Eisenhower years. But this, as we have just seen, is no proof whatever that the inflation index was holding similarly stable. In fact, it wasn't. Of this there is any amount of proof. The U.S. Bureau of Labor Statistics recently reported that, in 1957, almost eight million labor union workers received wage increases running up to 17 cents an hour, most of them getting between 15 and 17 cents. It reported that almost the same heavy wage inflation had occurred in 1956, although the number of workers receiving increases then was slightly smaller and the increases slightly less.

Going still further back, it reported that wage increases between 1954 and 1956 increased wholesale industrial prices approximately five percent. Very few of these 1954-57 wage increases were reflected in the Cost of Living Index for these years. Some of them will reach it later. Some of them never will.

An inflation index has not only to select items from a much wider cross section of the economy than the Cost of Living Index does, but also it has to make price comparisons, from one decade to another, on exactly the same items. The Cost of Living Index does not, from one decade to another, cover the same items at all. It continually drops items and adds new ones. Obviously, however, inflation cannot be measured by comparing the price of a Buick in 1958 with the price of a buggy in 1913.

Finally, the Cost of Living Index as an index to inflation would be misleading in still another direction. It is one of a number of economic indices which likes to set new "base dates" for itself every once in a while. That is why its present "percentage points" bear no relation whatever to living costs in 1913.

It might be added that all the apologists for inflation are fond of what might well be called the "new base date" racket. Whenever inflation has risen to an uncomfortably high point they have said in effect: "Let's forget all about the inflation that occurred before such-and-such a date, and begin all over again." Some of them are now taking 1940 as a base date; some 1948; some 1953. None of them are taking the true "base date," 1914. By using 1953 as the "base date" for their own special inflation indices, they can say to us soothingly: "After all, we have 'so far' had an inflation of 'only' five percent: why worry?" They thus conveniently ignore the 400 percent inflation that we had already had between 1914 and 1953. This misuse of statistics is so naive a one that you would not think it would fool anyone. Yet it does.

Few of these apologists for inflation, if you really pin them down, attempt to deny that our dollar has, since 1914, shrunk in value from \$1.00 to about 21 cents. They cannot; for almost any item on which one chooses to make comparisons confirms a shrinkage of at least this order. Hair cuts in 1913 cost 25 cents; now \$2.00. Men's shoes \$3.50 in 1913: comparable shoes today \$15.00. Street car fares in 1913, five cents; now 15 or 20 cents. New York subways in 1913 cost a million dollars a mile to build; now 13 million. Exactly the same house, which was erected in 1913 for \$3000, today costs about \$18,000. Food has gone up least; but even food costs have been inflated over 300 percent.

Everyone whose memory goes back to 1913 knows that these figures are a rough but true measure of the inflation that has occurred since then. But, unless you do pin them down, the inflation apologists talk about inflation as though it were a small matter, too trivial to waste time talking about.

As an example, take this sen-

tence in a recent, otherwise sound, editorial in *Life:* "A policy of squanderation now will revive inflation without curing recession." The trouble here lies in the word "revive." "Revive" assumes that inflation has been stopped, whereas it has been spiraling upward faster during the last 20 months than at any time in years.

Or, as an example of what might be termed propagandistic falsehood, take Walter Reuther's claim that an increase in the wages of his auto workers "would benefit everyone." One wonders how he could explain how increases in the wages of his union members could possibly benefit our six million families living on fixed incomes. Only a stopping of inflation can help them; and any raising of wage costs—to any one—will hurt them.

Or, as an example of what might be termed the lie political, take the statement repeated over the last four months by several members of Congress; namely that the cuts proposed in personal income taxes would "benefit most those families which have the smallest incomes." One wonders how any intelligent man hopes to gain anything by uttering such a transparent falsehood. Our millions of families "which have the smallest incomes" have incomes so small that they do not pay income taxes. How then will cutting income taxes help *them?*

ONE LAST thought. Inflation is, most of all, a moral problem. For it is actually theft on a colossal scale, stealing by certain rich and powerful groups of the population from certain other groups which are too weak and too poor to defend themselves against this spoilation.

We are told, on very good authority—and we might do well to remember—that acts which are morally wrong bring, eventually, due and sure retribution.

In 1913, when the Federal Reserve Act was rammed through a Congress dominated by Democrats—at the command of the international bankers who ruled Woodrow Wilson (his "advisors"!), total deposits in all banks of the United States plus currency in circulation outside of banks amounted to $19,403 million. The population then was approximately 100 million, which meant that our Money Quantity *per capita* was $194. In 1958, total deposits in all banks, plus currency in circulation outside of banks, is approximately $232,000 million, making Money Quantity $1,364 *per capita.* That increase of Money Quantity—$194 per capita to $1,364 per capita since 1913—is a crime against the people for which the Federal Reserve Banking System is guilty beyond reasonable doubt.